

TOWNSHIP OF LEE
Midland County, Michigan

**FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION**

Year Ended March 31, 2008

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Township of Lee	County Midland
Fiscal Year End March 31, 2008	Opinion Date June 27, 2008	Date Audit Report Submitted to State August 11, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.		Telephone Number 989-894-1040	
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686		City Bay City	State MI
Zip 48707			
Authorizing CPA Signature 	Printed Name Mark J. Campbell	License Number 1101007803	

**LEE TOWNSHIP, MIDLAND COUNTY
ANNUAL FINANCIAL REPORT
YEAR ENDED MARCH 31, 2008**

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INTRODUCTORY SECTION

**LEE TOWNSHIP, MIDLAND COUNTY
TOWNSHIP OFFICIALS
YEAR ENDED MARCH 31, 2008**

SUPERVISOR

David Yost

TRUSTEES

Mike Glynn

Dale Wolfgang

TREASURER

William Stewart

CLERK

Ronald Rippee

DEPUTY CLERK

Doris French

FINANCIAL SECTION

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA
KENNETH P. KUSTERER, CPA

512 N. LINCOLN AVE. - SUITE 100
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INDEPENDENT AUDITOR'S REPORT

June 27, 2008

To the Township Board
Township of Lee
Midland County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Township of Lee, Midland County, Michigan as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Township of Lee's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities and each major fund of the Township of Lee, Midland County, Michigan as of March 31, 2008, and the respective changes in financial position and cash flows where applicable of those activities and funds, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Township's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Campbell, Kusterer & Co., P.C.
CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

LEE TOWNSHIP, MIDLAND COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Lee Township, we offer readers of the Township's financial statements this narrative overview and analysis of the financial activities of the Township for the fiscal year ended March 31, 2008. We encourage readers to consider the information presented here in conjunction with the financial report. All amounts, unless otherwise indicated, are presented in whole dollars.

Financial Highlights

The assets of the Township exceeded its liabilities at the close of the most recent fiscal year by \$2,148,461 (net assets). Of this amount, \$1,824,247 (unrestricted net assets) may be used to meet the government's ongoing obligations to the citizens and creditors.

The government's total net assets increased by \$222,146. This increase is attributable to an approximate \$480,866 of general revenues offsetting a \$258,720 loss from operating activities.

As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$1,818,012, an increase of \$193,397 in comparison with the prior year. This increase is primarily due to an increase in special assessment revenues and interest revenue from the Township's Certificates of Deposits. The total of the fund balances is available for spending at the government's discretion (unreserved-undesignated fund balance).

At the end of the current fiscal year, unreserved fund balance for the general fund was \$1,167,142 or approximately 300 percent of total general fund expenditures.

During the current year, the Township contracted with Midland County for assistance in financing additional water supply system improvements to expand the System to serve certain areas in the Township. The County expects to issue bonds within the next fiscal year in anticipation of payments to be made by the Township. The bonds will be a full faith and credit limited tax general obligation bond. In order to finance preliminary costs of the project, the Township obtained a bond anticipation note in the amount of \$625,000 via the County.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction of the Township's basic financial statements. The Township's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., special assessments).

LEE TOWNSHIP, MIDLAND COUNTY MANAGEMENT'S DISCUSSION AND ANALYSIS

Both of the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Township include legislative, general government, public safety, public works, and Debt Service. The business-type activities of the Township include the water system.

The government-wide financial statements can be found on pages 17 and 18 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Township maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Fire Fund and Solid Waste Fund, all of which are considered to be major funds. Data from the other four governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in the report.

The Township adopts an annual appropriated budget for its general fund and all major special revenue fund types. Budgetary comparison statements have been provided in the supplemental section of the report to demonstrate the extent of compliance with these budgets.

The basic governmental fund financial statements can be found on pages 19 through 20 of this report.

Proprietary Funds. Services for which the Township charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information.

The Township maintains one enterprise fund (one type of proprietary fund), called the Water Fund, which is the same as the business-type activities, but provide more detail and additional information, such as cash flows.

The basic proprietary fund financial statements can be found on pages 23 through 25 of this report.

LEE TOWNSHIP, MIDLAND COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 27 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents other supplementary information in connection with nonmajor governmental funds. Combining and individual fund statements and schedules can be found on pages 45 through 48 of this report.

Government-wide Financial Analysis

The following summaries provide a perspective of the financial information of the Township as a whole:

Lee Township's Net Assets.						
	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 1,860,906	\$ 1,680,297	\$ 369,480	\$ -	\$ 2,230,386	\$ 1,680,297
Capital assets	324,214	301,489	285,374	-	609,588	301,489
Total assets	2,185,120	1,981,786	654,854	-	2,839,974	1,981,786
Other liabilities	42,610	55,471	648,903	-	691,513	55,471
Net assets:						
Invested in capital						
assets, net of related debt	324,214	301,489	-	-	324,214	301,489
Restricted	-	-	-	-	-	-
Unrestricted	1,818,296	1,624,826	5,951	-	1,824,247	1,624,826
Total net assets	\$ 2,142,510	\$ 1,926,315	\$ 5,951	\$ -	\$ 2,148,461	\$ 1,926,315

Lee Township's Changes in Net Assets						
	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for Services	\$ 398,407	\$ 393,707	\$ -	\$ -	\$ 398,407	\$ 393,707
Capital Grants and Contributions	-	40,000	-	-	-	40,000
General Revenues:						
Property taxes	69,166	63,566	-	-	69,166	63,566
Other	405,749	394,246	5,951	-	411,700	394,246
Total Revenues	873,322	891,519	5,951	-	879,273	891,519
Expenses:						
General Government	194,785	178,523	-	-	194,785	178,523
Public Safety	135,234	143,973	-	-	135,234	143,973
Public Works	249,875	276,103	-	-	249,875	276,103
Community and Economic Development	14,646	8,550	-	-	14,646	8,550
Recreation and Culture	62,587	52,701	-	-	62,587	52,701
Total Expenses	657,127	659,850	-	-	657,127	659,850
Increase in net assets before transfers	216,195	231,669	5,951	-	222,146	231,669
Transfers	-	-	-	-	-	-
Increase in net assets	216,195	231,669	5,951	-	222,146	231,669
Net Assets - April 1	1,926,315	1,694,646	-	-	1,926,315	1,694,646
Net Assets - March 31	\$ 2,142,510	\$ 1,926,315	\$ 5,951	\$ -	\$ 2,148,461	\$ 1,926,315

LEE TOWNSHIP, MIDLAND COUNTY MANAGEMENT'S DISCUSSION AND ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Lee Township, assets exceeded liabilities by \$2,148,461 at the close of the most recent fiscal year.

A portion of the Township's net assets reflects its investment in capital assets (e.g., land, equipment, infrastructure), less any related debt used to acquire those assets that is still outstanding. The Township uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Township's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance of unrestricted net assets (\$1,824,247) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Township is able to report a positive balance in the unrestricted category of net assets for the government as a whole.

The government's net assets increased by \$222,146 during the current fiscal year. Much of this increase can be attributed to an approximate \$480,866 of general revenues offsetting an approximate \$258,720 loss from operating activities.

Governmental activities. Governmental activities increased the Township's net assets by \$216,195. The key element of this increase as stated above was the influx of special assessments and interest revenue from the township's cash and certificates of deposit accounts.

Business-Type Activities. Net assets of the Township's business-type activities are invested in capital assets for the water system. Consequently, net assets represent only interest earned on finances held by the county. As the Township issues the bonds needed to pay for the water system project, taxes will be levied to generate the resources needed to pay for the debt assumed by the Township.

Financial Analysis of the Government's Funds

As noted earlier, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$1,818,012, an increase of \$193,397 in comparison with the prior year. The key element of this increase can be attributed to an increase in special assessment revenues for solid waste and interest received from the Township's cash and certificates of deposit. The total ending fund balance constitutes unreserved fund balance, which is available for spending at the government's discretion.

The General fund is the chief operating fund of the Township. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,167,142.

LEE TOWNSHIP, MIDLAND COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

The fund balance of the Township's general fund increased by \$75,892 during the current fiscal year. The key element of this increase can be attributed to operating revenues in excess of expenditures.

The Fire Fund experienced a increase of \$95,552 in its fund balance. This increase is due primarily to an increase in fire contract and special assessment revenues.

The Solid Waste Fund experienced an increase of \$19,688 and this increase is attributable to an increase in special assessment revenues.

Nonmajor Governmental fund increases in fund balance occurred and are consistent with increases experienced by the Township in recent years.

Proprietary funds. The Township's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. During the current year, the Township contracted with Midland County for assistance in financing additional water supply system improvements to expand the System to serve certain areas in the Township. The County expects to issue bonds within the next fiscal year in anticipation of payments to be made by the Township. The bonds will be a full faith and credit limited tax general obligation bond. In order to finance preliminary costs of the project, the Township obtained a bond anticipation note in the amount of \$625,000.

General Fund Budgetary Highlights

For the fiscal year of 2007-2008 Lee Township continued its practice of building up fund balance in its General and Special Revenue Funds. The annual budget was approved by the Township Board in March of 2007 as required by the State of Michigan, and was amended by the Board throughout the fiscal year of 2007-2008.

The budget was amended once during the fiscal year. The amendment transferred budgeted funds from the contingency account to the liquor law enforcement activity leaving no change in budgeted fund balance.

Capital Asset Administration

Capital Assets. The Township's investment in capital assets for its governmental activities as of March 31, 2008, amounts to \$324,214 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and park improvements.

Lee Township's Capital Assets (net of depreciation)				
	Governmental Activities		Business-Type Activities	
	2008	2007	2008	2007
Land and Land Improvements	\$ 33,739	\$ 35,561	\$ -	\$ -
Buildings	43,751	47,996	-	-
Park Improvements	35,198	34,002	-	-
Equipment and Vehicles	191,926	183,930	-	-
Construction in Progress	19,800	-	285,374	-
Total	<u>\$ 324,214</u>	<u>\$ 301,489</u>	<u>\$ 285,374</u>	<u>\$ -</u>

Additional information on the Township's capital assets can be found in Note 6 of this report.

LEE TOWNSHIP, MIDLAND COUNTY MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors

As the Township continues to grow in size and in services the economic factors will certainly change and reflect the direction that the community has taken. The Board and staff of the Township are committed to working together to get the most out of every dollar and serve in the most responsible manner possible.

Requests for Information

This financial report is designed to provide a general overview of the Township's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Township Hall.

BASIC FINANCIAL STATEMENTS

**LEE TOWNSHIP, MIDLAND COUNTY
GOVERNMENT WIDE
STATEMENT OF NET ASSETS
MARCH 31, 2008**

Statement I

	Governmental Activities	Business-Type Activities	Total
<u>ASSETS</u>			
Current Assets			
Cash and Investments	\$ 1,691,726	\$ -	\$ 1,691,726
Due From State	49,144	-	49,144
Due From County	-	369,480	369,480
Internal Balances	16,215	-	16,215
Prepaid Expenses	11,608	-	11,608
Property Taxes Receivable	9,722	-	9,722
Special Assessments Receivable	63,107	-	63,107
Interest Receivable	19,384	-	19,384
Total Current Assets	1,860,906	369,480	2,230,386
Noncurrent Assets			
Capital Assets			
Land	2,650	-	2,650
Land Improvements	45,547	-	45,547
Buildings, Additions & Improvements	149,179	-	149,179
Equipment	52,855	-	52,855
Parks & Improvements	72,406	-	72,406
Vehicles	306,565	-	306,565
Construction in Progress	19,600	285,374	304,974
Less Accumulated Depreciation	(324,588)	-	(324,588)
Total Capital Assets	324,214	285,374	609,588
Total Assets	\$ 2,185,120	\$ 654,854	\$ 2,839,974
<u>LIABILITIES AND NET ASSETS</u>			
Current Liabilities			
Accounts Payable	\$ 40,168	\$ -	\$ 40,168
Due to Other Governments	638	-	638
Internal Balances	-	16,215	16,215
Accrued Interest Payable	-	7,688	7,688
Payroll Withholdings Payable	1,804	-	1,804
Bond Anticipation Note Payable	-	625,000	625,000
Total Current Liabilities	42,610	648,903	691,513
Net Assets			
Invested in Capital Assets, Net of Related Debt	324,214	-	324,214
Unrestricted	1,818,296	5,951	1,824,247
Total Net Assets	2,142,510	5,951	2,148,461
Total Liabilities and Net Assets	\$ 2,185,120	\$ 654,854	\$ 2,839,974

The notes to the financial statements are an integral part of this statement.

**LEE TOWNSHIP, MIDLAND COUNTY
GOVERNMENT WIDE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2008**

Statement II

Functions / Programs	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Capital Grants and Contributions		Total
			Governmental Activities	Business-Type Activities	
Primary Government:					
Governmental Activities					
General Government	\$ 194,785	\$ 12,118	\$ -	\$ -	\$ (182,667)
Public Safety	135,234	184,295	-	-	49,061
Public Works	249,875	198,515	-	-	(51,360)
Community and Economic Development	14,646	3,479	-	-	(11,167)
Recreation and Culture	62,587	-	-	-	(62,587)
Total Governmental Activities	657,127	398,407	-	-	(258,720)
Business-Type Activities					
Water	-	-	-	-	-
Total Primary Government	\$ 657,127	\$ 398,407	-(258,720)	-(258,720)	-(258,720)
General Revenues:					
Property Taxes			69,166	-	69,166
Revenue Sharing			330,420	-	330,420
Interest and Dividends			68,895	5,951	74,846
Gain on Sale of Capital Assets			3,900	-	3,900
Other			2,534	-	2,534
Total General Revenues			474,915	5,951	480,866
Changes in Net Assets			216,195	5,951	222,146
Net Assets - April 1			1,926,315	-	1,926,315
Net Assets - March 31			\$ 2,142,510	\$ 5,951	\$ 2,148,461

The notes to the financial statements are an integral part of this statement.

**LEE TOWNSHIP, MIDLAND COUNTY
GOVERNMENTAL FUNDS
BALANCE SHEET
MARCH 31, 2008**

STATEMENT III

	General Fund	Fire Fund	Solid Waste Fund	Other Nonmajor Governmental Funds	Total
<u>ASSETS</u>					
Cash & Cash Equivalents	\$ 1,213,488	\$ 471,278	\$ 40,434	\$ -	\$ 1,725,200
Due From Other Funds	55,788	-	132,393	13,159	201,340
Due From State	49,144	-	-	-	49,144
Due From County	-	-	-	-	-
Property Taxes Receivable	9,722	-	-	-	9,722
Special Assessments Receivable	-	22,058	-	615	22,673
Interest Receivable	15,744	3,640	-	-	19,384
Prepaid Expenses	4,846	6,763	-	-	11,609
TOTAL ASSETS	\$ 1,348,732	\$ 503,739	\$ 172,827	\$ 13,774	\$ 2,039,072
<u>LIABILITIES AND FUND BALANCE</u>					
LIABILITIES					
Accounts Payable	\$ 33,312	\$ 6,857	\$ -	\$ -	\$ 40,169
Payroll Withholdings Payable	1,804	-	-	-	1,804
Due To Other Governments	638	-	-	-	638
Due To Other Funds	145,552	32,613	-	-	178,165
Deferred Revenue	284	-	-	-	284
TOTAL LIABILITIES	181,590	39,470	-	-	221,060
FUND BALANCE					
Unreserved - Undesignated, Reported in:					
General Fund	1,167,142	-	-	-	1,167,142
Special Revenue Funds	-	464,269	172,827	13,774	650,870
TOTAL FUND BALANCE	1,167,142	464,269	172,827	13,774	1,818,012
TOTAL LIABILITIES AND FUND BALANCE	\$ 1,348,732	\$ 503,739	\$ 172,827	\$ 13,774	\$ 2,039,072

The notes to the financial statements are an integral part of this statement.

**LEE TOWNSHIP, MIDLAND COUNTY
GOVERNMENTAL FUNDS
STATEMENT OF REVENUE, EXPENDITURES, AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED MARCH 31, 2008**

Statement IV

	General Fund	Fire Fund	Solid Waste Fund	Other Nonmajor Governmental Funds	Total
REVENUE					
Property Taxes	\$ 68,657	\$ -	\$ -	\$ -	\$ 68,657
Special Assessments	-	141,151	196,250	2,265	339,666
State Grants	330,420	-	-	-	330,420
Private Grants	-	-	-	-	-
Charges for Services	11,667	-	-	-	11,667
Fire Contracts	-	43,163	-	-	43,163
Interest Earnings	51,326	17,568	-	-	68,894
Rents and Royalties	4,345	-	-	-	4,345
Sale of Fixed Assets	900	3,000	-	-	3,900
Other Revenue	1,257	1,278	-	-	2,535
TOTAL REVENUE	468,572	206,160	196,250	2,265	873,247
EXPENDITURES					
Current Operations					
General Government	183,820	-	-	-	183,820
Public Safety	7,751	110,608	-	-	118,359
Public Works	96,006	-	150,014	-	246,020
Community & Economic Development	14,646	-	-	-	14,646
Recreation & Culture	57,782	-	-	-	57,782
Other	7,075	-	-	-	7,075
Capital Outlay	25,600	-	26,548	-	52,148
TOTAL EXPENDITURES	392,680	110,608	176,562	-	679,850
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	75,892	95,552	19,688	2,265	193,397
FUND BALANCE - APRIL 1	1,091,250	368,717	153,139	11,509	1,624,615
FUND BALANCE - MARCH 31	\$ 1,167,142	\$ 464,269	\$ 172,827	\$ 13,774	\$ 1,818,012

The notes to the financial statements are an integral part of this statement.

**LEE TOWNSHIP, MIDLAND COUNTY
GOVERNMENTAL FUNDS
RECONCILIATION OF FUND BALANCE
TO THE STATEMENT OF NET ASSETS
MARCH 31, 2008**

Statement V

Amounts reported for governmental activities in the statement of net assets are different because:

Total Fund Balance of Governmental Funds (Statement III)	\$ 1,818,012
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	324,214
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	<u>284</u>
Net Assets of Governmental Activities (Statement I)	<u>\$ 2,142,510</u>

The notes to the financial statements are an integral part of this statement.

**LEE TOWNSHIP, MIDLAND COUNTY
GOVERNMENTAL FUNDS
RECONCILIATION OF STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITY
FOR THE YEAR ENDED MARCH 31, 2008**

Statement VI

Amounts reported for governmental activities in the statement of activities are different because:

Net Change in Fund Balances - Total Governmental Funds (Statement IV)	\$ 193,397
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$52,148) exceeded depreciation (\$29,423) in the current period.	22,725
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The statement of activities reports current year assessment levies as revenue and the governmental funds do not. Also the governmental funds report special assessment collections as revenue while the statement of activities show them as reductions to the receivable.	<u>73</u>
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Change in Net Assets of Governmental Activities (Statement II)	<u>\$ 216,195</u>
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The notes to the financial statements are an integral part of this statement.

**LEE TOWNSHIP, MIDLAND COUNTY
ENTERPRISE FUNDS
STATEMENT OF NET ASSETS
MARCH 31, 2008**

Statement VII

	<u>Water Fund</u>
<u>ASSETS</u>	
Current Assets	
Due From County	\$ 369,480
Noncurrent Assets	
Capital Assets	
Construction in Progress	<u>285,374</u>
 Total Assets	 <u>\$ 654,854</u>
<u>LIABILITIES AND NET ASSETS</u>	
Current Liabilities	
Accounts Payable	\$ -
Internal Balances	16,215
Bond Anticipation Note Payable	625,000
Accrued Interest Payable	<u>7,688</u>
 Total Current Liabilities	 648,903
Net Assets	
Invested in Capital Assets, Net of Related Debt	-
Unrestricted	<u>5,951</u>
 Total Net Assets	 <u>5,951</u>
 Total Liabilities and Net Assets	 <u>\$ 654,854</u>

**LEE TOWNSHIP, MIDLAND COUNTY
ENTERPRISE FUNDS
STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2008**

Statement VIII

	Water Fund
<u>NON-OPERATING REVENUE (EXPENSES)</u>	\$ 5,951
CHANGE IN NET ASSETS	<u>5,951</u>
TOTAL NET ASSETS - APRIL 1	<u>-</u>
TOTAL NET ASSETS - MARCH 31	<u>\$ 5,951</u>

**LEE TOWNSHIP, MIDLAND COUNTY
ENTERPRISE FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2008**

Statement IX

	<u>Water Fund</u>
Cash Flows From Operating Activities	\$ -
Cash Flows From Non-Capital Financing Activities	-
Increase in Amounts Due to other Funds	16,215
Cash Flows From Capital and Related Financing Activities	
Increase in Funds Held by County	(369,480)
Receipt of Bond Anticipation Note Proceeds	625,000
Acquisition and Construction of Capital Assets	(285,374)
Increase in Interest Payable	<u>7,688</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	(22,166)
Cash Flows From Investing Activities	
Interest Income	<u>5,951</u>
Net Increase in Cash and Cash Equivalents	-
Cash and Cash Equivalents - April 1	<u>-</u>
Cash and Cash Equivalents - March 31	<u>\$ -</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$ -
Change in Assets and Liabilities:	
Receivables, net	(363,529)
Construction in Progress	(285,374)
Accounts and Other Payables	641,215
Accrued Expenses	<u>7,688</u>
Net Cash Provided by Operating Activities	<u>\$ -</u>

LEE TOWNSHIP, MIDLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Lee Township have been prepared in conformity with generally accepted accounting principles (GAAP) in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies.

A. Reporting Entity

Lee Township, Midland County, a general law township organized in October 1880 and covers approximately 36 square miles with the Township's seat located within the boundaries of the Township. The Township operates under the directorship of a Township board consisting of five members. The Township provides the following services: Public safety, highways and streets, culture and recreation, refuse collection, public improvements and general administrative services.

Component units. In evaluating how to define the government, for financial reporting purposes, management has considered all potential agencies and organizations. The decision to include a potential agency or organization in the reporting entity was made by applying the criteria set for by the Governmental Accounting Standards Board (GASB) Statement 14. Generally, component units are legally separate organizations for which the elected officials of the Township are financially accountable. Financial accountability is determined by the Township's ability to impose its will on the component unit, as well as the unit's significance regarding the operational and financial relationship with the Township. Based upon the application of this criteria, we found no other units that should be classified as component units.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on the fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of the given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

LEE TOWNSHIP, MIDLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Funds. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Township reports the following governmental funds:

The *General Fund* is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Fire Fund* is a special revenue fund. It accounts for resources used to provide fire services to residents of the Township and the surrounding area.

The *Solid Waste Fund* is another special revenue fund. It accounts for the operation of the Township's solid waste disposal activities.

Special Revenue Funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Proprietary Funds. The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the Township:

Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges, or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

LEE TOWNSHIP, MIDLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The Township has elected not to follow subsequent private-sector guidance.

C. Measurement focus, basis of accounting, and financial statement presentation (Continued)

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to the general rule are payments of utility charges between the Township's water and sewer function and various other functions of the Township. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including some special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Assets, liabilities, and net assets or equity

1) Deposits and Investments – The Township has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Investments are reported at fair value. State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

2) Receivables and Payables – In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

Advance between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

LEE TOWNSHIP, MIDLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Personal property taxes receivable is shown net of an allowance for uncollectible. Property taxes are levied and due December 1, and become delinquent after February 14.

3) Inventories and Prepaid Items – The Township follows the policy of not recording inventories in governmental funds. The effect of not recording inventories is considered to be immaterial. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4) Restricted Assets – Certain resources of the Township may be classified as restricted on the statement of net assets because their use is limited.

5) Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Township as assets with initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the time of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

Land & Park Improvements	10 to 25 years
Buildings	40 years
Building Improvements	10 to 25 years
Vehicles and Equipment	10 to 20 years
Flowage Rights	5 to 7 years

6) Compensated Absences (Vacation and Sick Leave) – It is the Township's policy that all vacation sick leave be used in the year in which it is earned. Unused leave time is not accrued and will not be paid upon termination.

7) Post Employment Benefits -- The Township provides no post-employment benefits to past employees.

8) Long-term Obligations – In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

LEE TOWNSHIP, MIDLAND COUNTY **NOTES TO THE FINANCIAL STATEMENTS** **MARCH 31, 2008**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, liabilities, and net assets or equity (Continued)

9) Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represent tentative management plans that are subject to change.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgets and Budgetary accounting

Annual budgets are adopted for the general and all special revenue funds. The budgets for all funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America. The legal level of budgetary control adopted by the governing body is the department or activity level for all funds.

The Township does not record encumbrances in accounting during the year. Appropriations lapse at the end of the fiscal year and amounts are re-appropriated for expenditures to be incurred in the next fiscal year.

NOTE 3 – CASH AND CASH EQUIVALENTS

Deposits are carried at cost. Deposits are in several financial institutions in the name of the Township Treasurer. Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations. The Township's deposits are in accordance with statutory authority.

At year-end, the carrying value of cash and cash equivalents held by the Township is as follows:

	Primary Government
Petty Cash / Cash on Hand	\$ 400
Bank Deposits (CD, Checking, Savings)	1,691,326
Grand Totals - Cash and Cash Equivalents	<u>\$ 1,691,726</u>

Deposits

There is custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. At year-end, the carrying amount of the Township's deposits with financial institutions was \$1,691,726 and the bank balance was \$1,702,007. Of the bank balance \$861,987 was covered by federal depository insurance and \$840,020 was uninsured and uncollateralized. Of the book balance \$861,987 was covered by federal depository insurance and \$829,739 was uninsured and uncollateralized.

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations. As of year end, the Township did not have any investments that would be subject to rating.

**LEE TOWNSHIP, MIDLAND COUNTY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2008**

NOTE 3 – CASH AND CASH EQUIVALENTS (Continued)

Interest Rate Risk

The Township will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Township's cash requirements.

Concentration of Credit Risk

The Township will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio so the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk

The Township will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities authorized by the Board and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Township will do business in accordance with Board approved policy.

NOTE 4 – RECEIVABLES

Receivables as of year-end for the government's individual major funds and component units, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Fire</u>	<u>Solid Waste</u>	<u>Non-Major</u>	<u>Total</u>
Receivables:					
Taxes	\$ 9,722	\$ -	\$ -	\$ -	\$ 9,722
Special Assessments	-	22,058	-	615	22,673
Total Receivables	\$ 9,722	\$ 22,058	\$ -	\$ 615	\$ 32,395

NOTE 5 – INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS

The composition of interfund balances in the fund statements is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	
General Fund	Fire Fund	\$ 32,613
General Fund	Current Tax Collection	6,960
General Fund	Water Fund	16,215
Solid Waste Fund	General Fund	132,393
Oakridge Drive Special Assessment Fund	General Fund	4,048
Sian Drive Special Assessment Fund	General Fund	1,845
Ireland Drive Special Assessment Fund	General Fund	6,542
Manitou Trail Special Assessment Fund	General Fund	724
		\$ 201,340

LEE TOWNSHIP, MIDLAND COUNTY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 5 – INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS (Continued)

The Township does not have separate cash accounts for special assessment funds, thus the net payable or receivable with General Fund represents the net revenue and expenses of that respective fund that is in the General Fund cash balance. The interfund between Fire and General is due to General Fund paying Fire expenses such as payroll, which will be reimbursed shortly after year-end.

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2008 was as follows:

	Beginning Balance	Acquisitions	Sales & Dispositions	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 2,650	\$ -	\$ -	\$ 2,650
Construction in Progress	-	19,600	-	19,600
Total capital assets not being depreciated	2,650	19,600	-	22,250
Capital assets being depreciated:				
Land Improvements	45,547	-	-	45,547
Buildings & Improvements	149,179	-	-	149,179
Equipment	74,700	26,548	48,393	52,855
Park Improvements	66,406	6,000	-	72,406
Vehicles	306,565	-	-	306,565
Total capital assets being depreciated	642,397	32,548	48,393	626,552
Less accumulated depreciation for:				
Land Improvements	12,636	1,822	-	14,458
Buildings & Improvements	101,183	4,244	-	105,427
Equipment	60,710	5,252	48,393	17,569
Park Improvements	32,404	4,805	-	37,209
Vehicles	136,625	13,300	-	149,925
Total accumulated depreciation	343,558	29,423	48,393	324,588
Total capital assets, being depreciated, net	298,839	3,125	-	301,964
Governmental activities capital assets, net	\$ 301,489	\$ 22,725	\$ -	\$ 324,214

Depreciation was charged to functions/programs as follows:

Governmental activities:	
General Government	\$ 3,493
Public Safety	16,873
Public Works	5,252
Recreation & Culture	4,805
Total depreciation expense-governmental activities	<u>\$ 29,423</u>

LEE TOWNSHIP, MIDLAND COUNTY **NOTES TO THE FINANCIAL STATEMENTS** **MARCH 31, 2008**

NOTE 6 – CAPITAL ASSETS (Continued)

	Beginning Balance	Additions	Sales & Dispositions	Ending Balance
Capital Assets, not being depreciated:				
Construction in Progress	\$ -	\$ 285,374	\$ -	\$ 285,374

NOTE 7 – BOND ANTICIPATION NOTE PAYABLE

The Township has entered into an agreement with the County of Midland to assist the Township in financing additional water supply system improvements to expand the system to serve certain areas in the Township. The agreement included the issuance of bond anticipation notes by the County in the principal amount of \$625,000 in order to pay part of the preliminary costs of the project. The notes are to be payable from the proceeds of the Bonds, as discussed in Note 13. The note matures on January 1, 2009 and bears an interest rate of 3.69% per annum. The notes are payable solely out of the proceeds of the bonds and out of payments to be made by the Township to the County.

The outstanding liability and the expenditures made both by the County and the Township are reflected in the Water Fund. When the project is completed, any remaining monies will be transferred to a Debt Service Fund to help make future debt payments.

NOTE 8 – DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Delinquent Personal Property Taxes	\$ 284	\$ -

NOTE 9 – RISK MANAGEMENT

The Township is exposed to various risks of loss related to claims, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Township purchases commercial insurance to provide for these risks.

There was no change in coverage from the prior year. Settled claims have not exceeded the amounts of insurance coverage in any of the last three years.

NOTE 10 – RETIREMENT BENEFITS

The Township provides pension benefits to its employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The plan is administered by, Manufacturers Life Insurance Company. The Township is required to contribute 15% of the participant's salary. Employees are able to voluntarily contribute up to 10% of their after-tax salary. Plan provisions and contribution requirements are established and amended by the Township Board.

**LEE TOWNSHIP, MIDLAND COUNTY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2008**

NOTE 11 – DEFERRED COMPENSATION PLAN

The Township does not have a deferred compensation plan.

NOTE 12 – BUILDING PERMITS

The Township of Lee does not issue building permits. Building permits are issued by the County of Midland.

NOTE 13 – COMMITMENTS

The Township has entered into an agreement with the County of Midland, whereby the Township, through bonds issued by the County of Midland, will construct and install a water system that is connected to the County's water system. Upon completion of construction and installation and acceptance by the City, the water mains within the Township Water Service Area shall remain the property of the Township. The bonds are expected to be issued in December of 2008 at a maximum amount of \$14,260,000 and will be designated as Qualified Tax-Exempt Obligations as described in Section 265(b)(3)(B) of the Internal Revenue Code of 1986.

REQUIRED SUPPLEMENTAL INFORMATION

**LEE TOWNSHIP, MIDLAND COUNTY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2008**

Exhibit A

	Budgeted Amounts			Variance with Final Budget - Under (Over) Budget
	Original	Final	Actual Amounts	
REVENUE				
Taxes	\$ 60,931	\$ 60,931	\$ 69,897	\$ (8,966)
Intergovernmental Revenue	326,205	326,205	329,595	(3,390)
Interest	15,000	15,000	51,326	(36,326)
Other Revenue	24,530	24,530	17,754	6,776
TOTAL REVENUE	426,666	426,666	468,572	(41,906)
EXPENDITURES				
General Government				
Township Board	178,500	178,495	24,874	153,621
Trustees	24,000	24,000	15,910	8,090
Supervisor	27,205	27,205	22,225	4,980
Clerk	36,365	36,365	27,398	8,967
Audit	8,000	8,000	6,785	1,215
Board of Review	2,600	2,600	1,555	1,045
Treasurer	41,575	41,575	31,173	10,402
Assessor	22,500	22,500	18,817	3,683
Elections	12,500	12,500	1,415	11,085
Building and Grounds	33,600	33,600	13,705	19,895
Attorney	15,000	15,000	4,615	10,385
Cemetery	21,000	21,000	13,825	7,175
Public Safety				
Liquor Law Enforcement	850	855	852	3
Ordinance Enforcement	8,630	8,630	6,898	1,732
Public Works				
Drains	25,000	25,000	12,930	12,070
Highways and Streets	146,000	146,000	64,014	81,986
Street Lighting	7,000	7,000	5,165	1,835
Water and Sewer	72,874	72,874	13,897	58,977
Community & Economic Development				
Planning	17,000	17,000	9,489	7,511
Zoning	6,550	6,550	499	6,051
Grant Committee	4,658	4,658	4,658	-
Recreation & Culture				
Parks and Recreation	26,333	26,333	26,333	-
Library	25,000	25,000	23,316	1,684
Other Functions	26,000	26,000	16,732	9,268
Capital Outlay	507,076	507,076	25,600	481,476
TOTAL EXPENDITURES	1,295,816	1,295,816	392,680	903,136
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(869,150)	(869,150)	75,892	(945,042)
Fund Balance - Beginning	128,930	128,930	1,091,250	(962,320)
Fund Balance - Ending	\$ (740,220)	\$ (740,220)	\$ 1,167,142	\$ (1,907,362)

**LEE TOWNSHIP, MIDLAND COUNTY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - FIRE FUND
FOR THE YEAR ENDED MARCH 31, 2007**

Exhibit B

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Under (Over) Budget
	Original	Final		
REVENUE				
Taxes	\$ 133,370	\$ 133,370	\$ 141,151	\$ (7,781)
Interest and Dividends	-	-	17,568	(17,568)
Other Revenue	<u>42,583</u>	<u>42,583</u>	<u>47,441</u>	<u>(4,858)</u>
TOTAL REVENUE	175,953	175,953	206,160	(30,207)
EXPENDITURES				
Public Safety	<u>447,013</u>	<u>447,013</u>	<u>113,633</u>	<u>333,380</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(271,060)	(271,060)	92,527	(363,587)
Fund Balance - Beginning	<u>159,603</u>	<u>159,603</u>	<u>368,717</u>	<u>(209,114)</u>
Fund Balance - Ending	<u>\$ (111,457)</u>	<u>\$ (111,457)</u>	<u>\$ 481,244</u>	<u>\$ (572,701)</u>

**LEE TOWNSHIP, MIDLAND COUNTY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - SOLID WASTE FUND
FOR THE YEAR ENDED MARCH 31, 2008**

Exhibit C

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Under (Over) Budget
	Original	Final		
REVENUE				
Special Assessment	\$ 195,125	\$ 195,125	\$ 196,250	\$ (1,125)
EXPENDITURES				
Refuse Collection/ Disposal	168,577	168,577	150,014	18,563
Capital Outlay	26,548	26,548	26,548	-
Total Expenditures	195,125	195,125	176,562	18,563
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	-	-	19,688	(19,688)
Fund Balance - Beginning	67,892	67,892	153,139	(85,247)
Fund Balance - Ending	\$ 67,892	\$ 67,892	\$ 172,827	\$ (104,935)

OTHER SUPPLEMENTAL INFORMATION

LEE TOWNSHIP, MIDLAND COUNTY
OTHER SUPPLEMENTAL INFORMATION
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
MARCH 31, 2008

Exhibit D

	Special Revenue Funds				
	Oakridge Drive Special Assessment	Sian Drive Special Assessment	Ireland Drive Special Assessment	Manitou Trail Special Assessment	Total
<u>ASSETS</u>					
Special Assessments Receivable	\$ 150	\$ 75	\$ 390	\$ -	\$ 615
Due From Other Funds	<u>4,048</u>	<u>1,845</u>	<u>6,542</u>	<u>724</u>	<u>13,159</u>
TOTAL ASSETS	<u>\$ 4,198</u>	<u>\$ 1,920</u>	<u>\$ 6,932</u>	<u>\$ 724</u>	<u>\$ 13,774</u>
<u>FUND BALANCE</u>					
Unreserved - Undesignated	<u>\$ 4,198</u>	<u>\$ 1,920</u>	<u>\$ 6,932</u>	<u>\$ 724</u>	<u>\$ 13,774</u>

**LEE TOWNSHIP, MIDLAND COUNTY
OTHER SUPPLEMENTAL INFORMATION
COMBINING STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED MARCH 31, 2008**

Exhibit E

	<u>Special Revenue Funds</u>				
	<u>Oakridge Drive Special Assessment</u>	<u>Sian Drive Special Assessment</u>	<u>Ireland Drive Special Assessment</u>	<u>Manitou Trail Special Assessment</u>	<u>Total</u>
REVENUE					
Special Assessments	\$ 600	\$ 525	\$ 1,140	\$ -	\$ 2,265
EXPENDITURES					
Public Works	-	-	-	-	-
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	600	525	1,140	-	2,265
FUND BALANCE - APRIL 1	<u>3,598</u>	<u>1,395</u>	<u>5,792</u>	<u>724</u>	<u>11,509</u>
FUND BALANCE - MARCH 31	<u>\$ 4,198</u>	<u>\$ 1,920</u>	<u>\$ 6,932</u>	<u>\$ 724</u>	<u>\$ 13,774</u>

**LEE TOWNSHIP, MIDLAND COUNTY
OTHER SUPPLEMENTAL INFORMATION
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
CURRENT TAX COLLECTION FUND
YEAR ENDED MARCH 31, 2008**

Exhibit F

	<u>Balance 4/1/07</u>	<u>Additions</u>	<u>Deductons</u>	<u>Balance 3/31/08</u>
Assets:				
Cash and Cash Equivalents	<u>\$ 6,503</u>	<u>\$ 2,190,233</u>	<u>\$ 2,189,776</u>	<u>\$ 6,960</u>
Liabilities:				
Due to Other Funds	<u>\$ 6,503</u>	<u>\$ 335,674</u>	<u>\$ 335,217</u>	<u>\$ 6,960</u>
Due to Others	<u>-</u>	<u>1,854,559</u>	<u>1,854,559</u>	<u>-</u>
Total Liabilities	<u>\$ 6,503</u>	<u>\$ 2,190,233</u>	<u>\$ 2,189,776</u>	<u>\$ 6,960</u>

**LEE TOWNSHIP, MIDLAND COUNTY
OTHER SUPPLEMENTAL INFORMATION
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
CURRENT TAX COLLECTION FUND
YEAR ENDED MARCH 31, 2008**

Exhibit G

Cash in Bank - April 1, 2007	\$ 6,503
Cash Receipts:	
Property Taxes	2,190,069
Interest	<u>164</u>
Total Cash Receipts	<u>2,190,233</u>
Total Beginning Balance and Cash Receipts	2,196,736
Cash Disbursements:	
Township General Fund	58,660
Township Fire Fund	119,091
Special Assessments	157,466
Midland County	1,022,158
Breckenrdge School District	56,489
Bullock Creek School District	558,742
Delta College	128,828
Meridian School District	11,365
Midland County ESA	64,950
State of Michigan	104
Refunds	<u>11,923</u>
Total Cash Disbursements	<u>2,189,776</u>
Cash in Bank - March 31, 2008	<u>\$ 6,960</u>

CAMPBELL, KUSTERER & CO., P.C.

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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

June 27, 2008

To the Township Board
Township of Lee
Midland County, Michigan

We have audited the financial statements of the Township of Lee for the year ended March 31, 2008. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Township of Lee in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Township Board
Township of Lee
Midland County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

The Township's system of internal control is affected by the size of the staff that it can employ.

The ultimate accounting system would include enough employees to completely segregate all aspects of each transaction. Different departments or individuals would handle: transaction authorization, transaction execution, asset handling, recording of transactions, review of transactions and subsequent control of assets.

The Township cannot enact a complete segregation of all aspects of each transaction due to the nature of local units of government. The "cost to benefit" relationship also would not justify a complete segregation of all duties.

We recommend that the Township Board Members understand these circumstances when performing their oversight responsibilities.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated March 31, 2008.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Campbell, Kusterer & Co., P.C.
CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants